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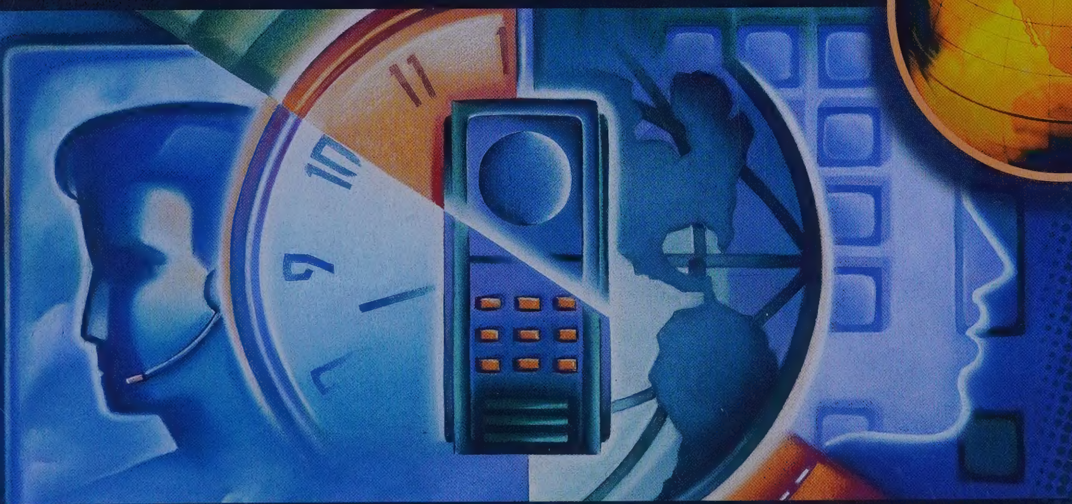
ANNUAL REPORT



ARCHITEL

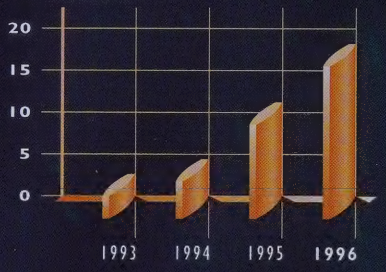
ARCHITEL

Architel provides advanced Operations Support Systems software to the global telecommunications industry, enabling telecommunication service providers to enhance the quality of service provided to their customers.

The global telecommunications arena is rapidly changing as a result of technological change, convergence, deregulation, privatization and increased competition. This is placing increased demands on telecommunications service providers to deliver an increasing array of new and existing services in a timely and responsive manner.

Architel's principal product, ASAP (Automatic Service Activation Program), enables telecommunications service providers to offer "real-time" service activation to their customers on a 24 hours a day basis and to significantly reduce the time to market for new services.

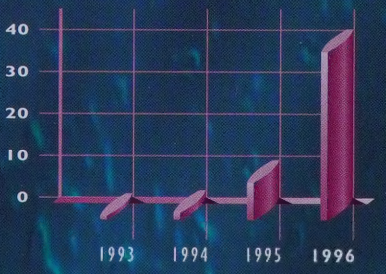
REVENUE
(in millions)



financial

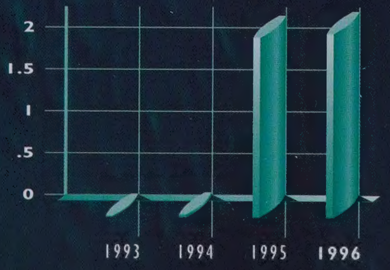
HIGHLIGHTS

ASSETS
(in millions)



	1996	1995
INCOME STATEMENT		
Revenues	$ 17,976,168	$ 11,156,039
Net Income	2,192,222	2,138,257
BALANCE SHEET		
Current Assets	$ 34,324,116	$ 4,994,208
Capital Assets	3,208,542	1,063,818
Other Assets	2,606,940	2,910,000
Total Assets	$ 40,139,598	$ 8,968,026
Current Liabilities	3,894,787	3,861,661
Other Liabilities	0	2,756,000
Total Liabilities	$ 3,894,787	$ 6,617,661
SHAREHOLDERS EQUITY		
Total equity	$ 36,244,811	$ 2,350,365
(Number of Employees)	141	68

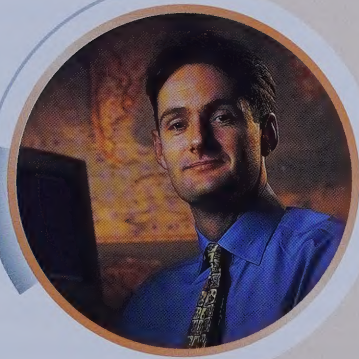
NET INCOME
(in millions)



Financial information in this report is expressed in Canadian dollars, unless otherwise stated.

to our

SHAREHOLDERS



ANTHONY P. VAN MARKEN

President and Chief Executive Officer

Architel's performance in 1996 is a validation of our Company's vision and reflects the strengths we have developed. Significant growth has been fueled by the demand for our principal product, ASAP (Automatic Service Activation Program), which is meeting the needs of telecommunications service providers worldwide to provide instant service activation for their customers. ASAP is an enterprise wide solution for the provisioning of a variety of services, ranging from basic telephony services to enhanced services in the local exchange, long distance, wireless, broadband and internet markets.

Our goal is to be a leading provider of Operations Support Systems in the global telecommunications market. We will achieve this by establishing ASAP as the de facto standard for service activation software, by leveraging the success of this product and by developing intimate customer relationships through the course of various projects.

In 1991, we embarked on the project to bring life to the vision of 'integrated service delivery'. The concept is an end to end process providing a single point of contact with the customer to receive the request for, activate, and confirm the activation of, any service or feature offered by a telecommunications service provider. We undertook this project with NBTel, a pioneer among telecommunications service providers, and in the process created ASAP, the engine for integrated service delivery. Since then, we have significantly enhanced ASAP with new features and functionality, all designed to meet our customers' needs and clearly demonstrating the strength of our Company as a technology innovator.

With the convergence of traditional telephony, cable, multimedia, internet and other communications services, the vision of integrated service delivery has become a reality. The ability to activate narrowband, broadband and wireless services through a single system is becoming a necessity in an increasingly competitive marketplace created by privatization and deregulation worldwide. The U.S. Telecom Reform Act of 1996 has created significant challenges for established telecommunications service providers and tremendous opportunities for new participants in the local exchange and long distance markets in the United States. In the European Community (EC), telecommunications service providers are preparing for telecom deregulation scheduled for 1998. EC reform has the ambitious objective of deregulating long distance and local service in two years, a process that has taken the United States twelve years and is still unfolding. A number of Asia/Pacific countries are going through similar changes as new telecommunications infrastructures are put in place or old ones upgraded.

Telecom reform has resulted in corporate reorganizations, as the big strive to get bigger and niche players look to expand their market share. Of note, during 1996 were the announced mergers of Bell Atlantic and NYNEX, British Telecom and MCI, Worldcom, MFS and UUNet, the announced sale of Bellcore by the 7 RBOCs and the breakup of AT&T. The telecommunications landscape is changing rapidly.

All of this activity is creating the need for new and established telecommunications service providers to establish or upgrade their Operations Support Systems (OSSs) and Business Support Systems. In the past, established telecommunications service providers may have had the luxury of time to develop these systems in-house or have them custom developed. Now, competitive pressures have resulted in changed philosophies for a growing number of these providers who are willing to buy 'best-in-class' solutions developed by third parties. The same holds true for the newer competitors who lack internal resources and are looking to third party vendors to build their systems. According to Northern Business Information's 1995 survey of the OSS market, spending on Operations Support Systems worldwide is expected to grow from $16 billion in 1995 to more than $22.6 billion by the year 2000, and in 1995 approximately 50% was spent on third party vendor products and services.

Architel is well positioned to meet the business needs of the global telecommunications industry with its 'best-in-class' solutions.

Our 1996 fiscal year was marked by a number of significant achievements for Architel:

- *Two additional Regional Bell Operating Companies (RBOCs) were added as customers, namely U S WEST and Bell Atlantic as well as the largest wireless carrier in Canada, Bell Mobility and our first Competitive Access Provider (CAP), MCImetro. ASAP software is now licensed to small, medium and large telecommunications service providers in North America, Europe and Asia/Pacific.*
- *In March, 1996, we completed our initial public offering in Canada, which provided significant additional working capital for the Company and a public trading market for our shares. This enhanced our ability to attract outstanding talent and to provide the highest level of service to our clients.*
- *During the year, we undertook considerable effort in creating the next generation of our ASAP product (ASAP generation 4.0). It now includes the capability to activate broadband services.*
- *Revenues before interest for fiscal 1996 grew by more than 61 % over those in fiscal 1995. At the same time we committed to the*

future by expanding our infrastructure to support a growing base of business and maturing our research and development group to support potential new product initiatives. New regional offices were established in Washington D.C. and Denver, Colorado. Overall, approximately 80 employees joined us during the fiscal year for a total of 141 at year end. This included a number of important additions to the executive team. The success we have had in attracting talented people is a tribute to the commitment of our existing personnel, some of whom have been with the Company for 10 years or more.

- *Architel and ASAP attracted industry recognition during the year. ASAP's high availability architecture, which makes use of replication technology, won the Sybase "Achieving Value Through Information Distribution Award" at DB Expo for the most innovative use of replication technology. In addition, Architel received Sybase's "Telecom Industry - Most Innovative Use of Sybase Technology" award. NYNEX received "The ComputerWorld Smithsonian Award of Merit" and NBTel received a "Canadian Information Productivity Award", in recognition of the advancements each has made in eliminating inefficiencies and improving customer service levels through the adoption of re-engineered service provisioning systems, of which ASAP software is the key component.*

- *In May, 1996, we held our Second Annual Industry Workshop in Washington D.C.; "Competitive Provisioning: A Revolution in Real Time". More than 60 representatives from the global telecommunication industry attended what is becoming the premier forum for the discussion of developments in provisioning and service activation.*

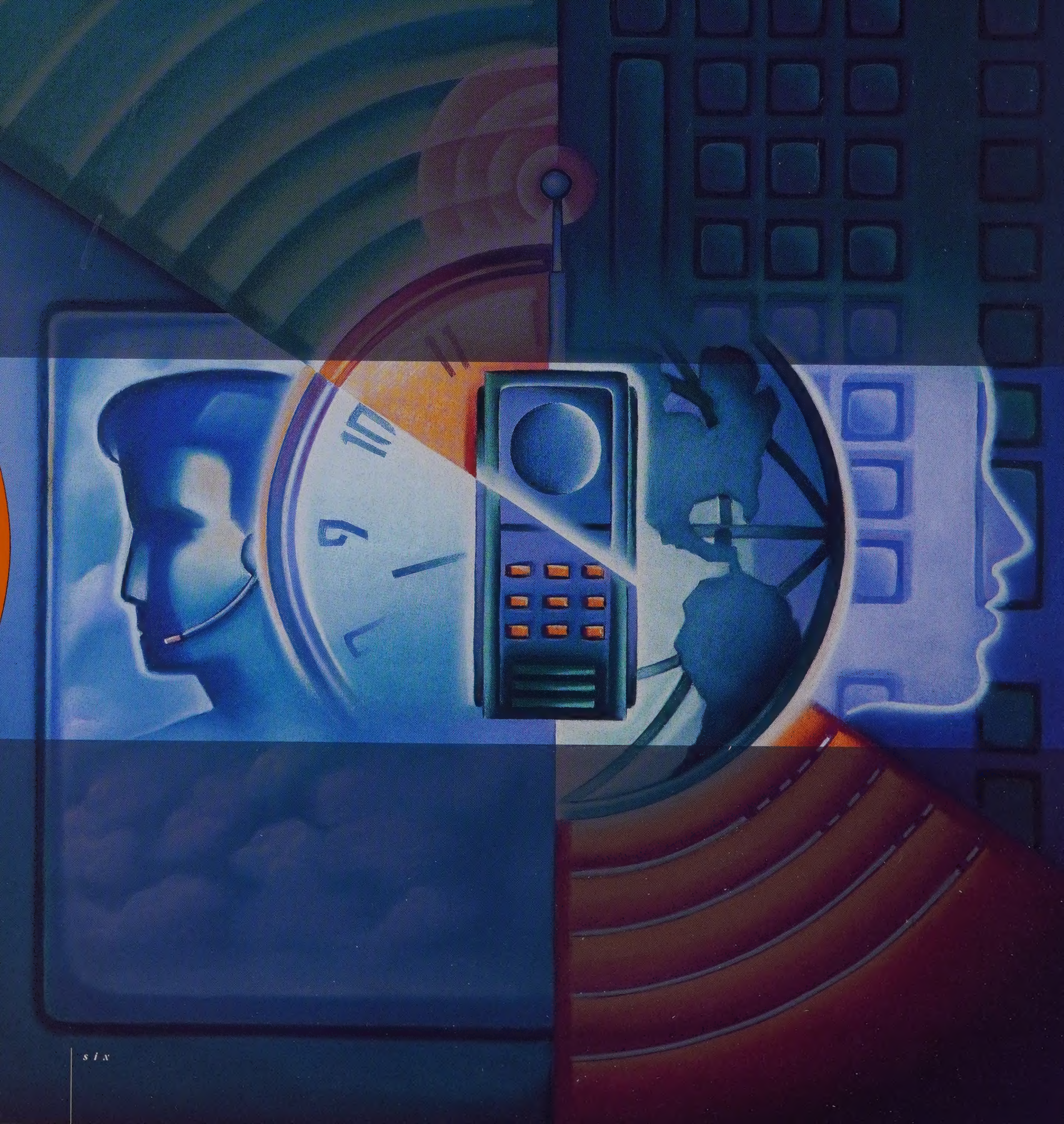
During the coming year, we intend to focus on expanding our markets for the ASAP product. This will be achieved by expanding direct sales capabilities and pursuing effective partnering arrangements with channel partners on a global basis. Within the year, we will establish a local presence in Europe to take advantage of the opportunities created by impending telecom deregulation in the European Community. Careful consideration will also be given to the establishment of an office in the Asia/Pacific region. We will continue to pursue the establishment of strategic partnerships with systems integrators, network equipment vendors and other third party software vendors to expand our ability to sell and deliver our solutions.

Resources will be committed to further enhance the ASAP product in response to industry needs. We will identify new product opportunities, whether through derivative applications of ASAP, enhancements to our workforce management product, FAMIS, or new Operations Support Systems, which may be internally developed or acquired.

We are fortunate to be operating in a dynamic, exciting industry that continues to create new opportunities for Architel. We are playing a strategic role in providing telecommunications service providers with the enabling technology to deliver world-class service. We are looking forward with enthusiasm to the coming year .

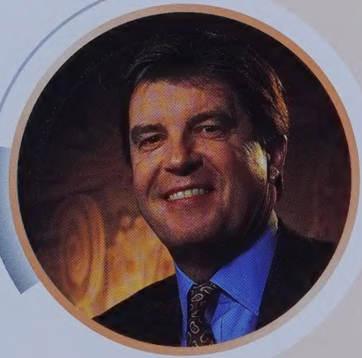
ANTHONY P. VAN MARKEN

President and Chief Executive Officer



company

PROFILE



DAVID E. CURRY

Senior Vice President, Business Development

THE ARCHITEL SOLUTION

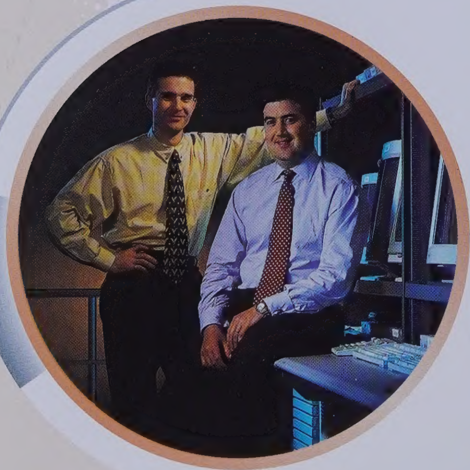
We develop, market and support advanced Operations Support Systems used in the global telecommunications industry. Operations Support Systems support 'mission critical' telecommunication network operations, such as: service activation, the establishment of a network connection and the activation of additional services between the service provider and the customer; and work force management, the dispatch of telephone installation and repair technicians.

Our flagship product is ASAP (Automatic Service Activation Program), a leading edge service activation software solution for services ranging from basic telephony to enhanced services in the local exchange, long distance, wireless, broadband communications and internet markets. Our other products consist of work force management software and intelligent craft access software, the software that resides on a field technician's handheld computer.

Our product strategy is based on the vision of integrated service delivery.

Integrated service delivery is an end to end process, which permits a single point of contact with the customer to receive the request for, activate and confirm the provisioning of, any service or feature offered by the telecommunications service provider in the shortest time possible. It permits the integration of a disparate array of Business Support Systems (systems which involve customer contact, such as service order processing and billing systems), Operations Support Systems, and network element technologies to ensure the efficient utilization of resources and to satisfy increasing customer demands.

Integrated service delivery is no longer just a vision, but a necessity, as telecommunications service providers compete globally to offer a growing combination of telephony, paging, video and internet services to an increasingly sophisticated and demanding consumer base. Time is no longer a luxury that can be afforded in the new competitive marketplace. Time to market with new services is a key competitive factor, together with the ability to deliver services in the form and in the time-frames demanded by customers. Our products make this vision a reality, allowing telecommunications service providers to effectively compete in this increasing competitive marketplace.



From left – MARK R. MERRICK
Vice President, Professional Services

DAVID W. NYLAND
Vice President, Product Development

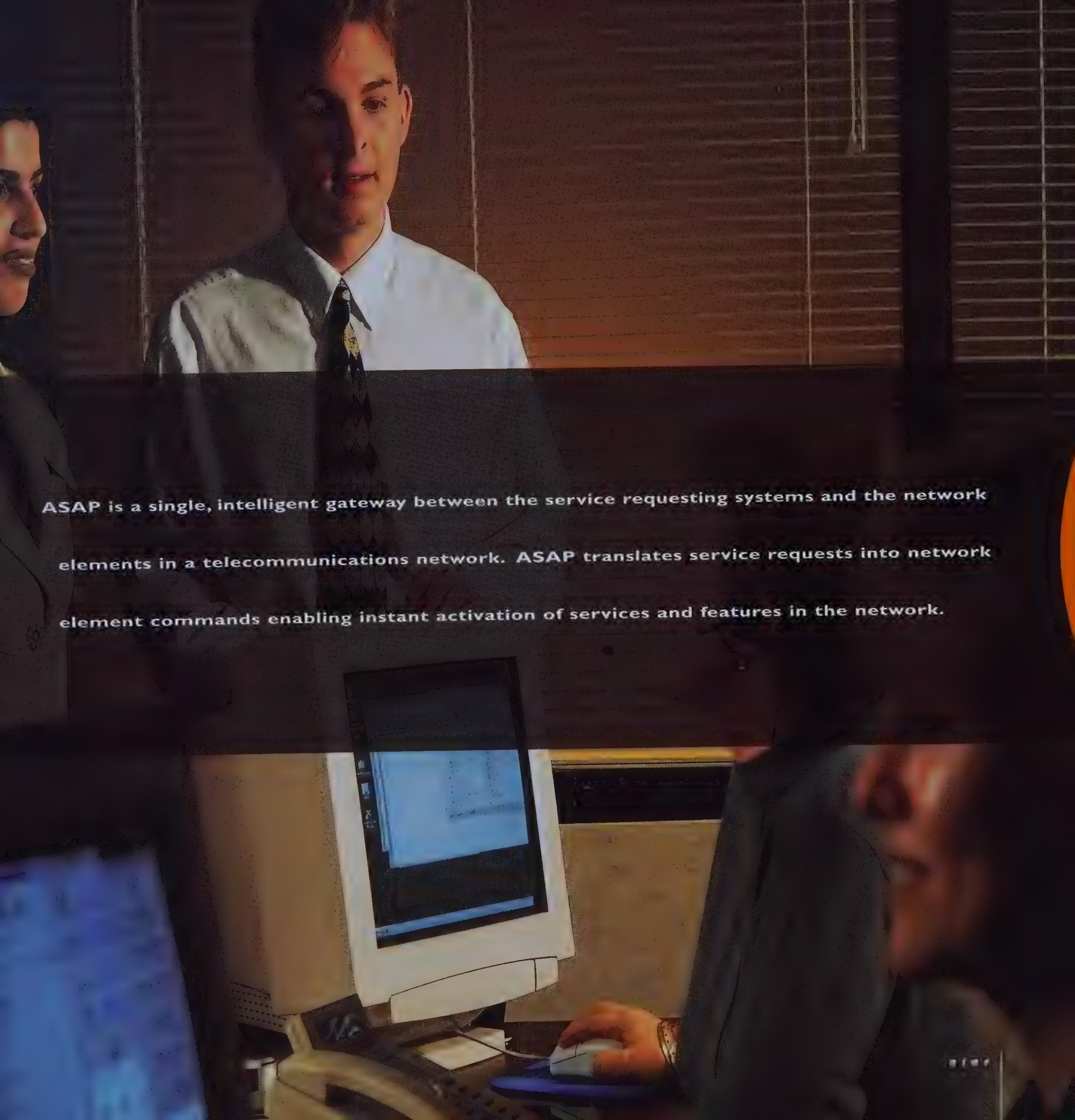
Our ASAP software helps telecommunications service providers to significantly increase the speed and efficiency of their network and service provisioning operations.

ASAP PRODUCT

Instant service activation is a key business need within the telecommunications industry today. Those telecommunications service providers that are fast to market with expanded services and can provide instant activation of services will gain and retain customers and achieve revenue protection. At the same time, telecommunications service providers of every size and type must strive to reduce costs and reduce costly errors in service activation.

Our ASAP software helps telecommunications service providers to significantly increase the speed and efficiency of their network and service provisioning operations. Greater customer satisfaction is achieved through the instant activation of any service request, simple or complex, in near-real time (in some cases, while the customer is still talking to the service representative) and instantaneous feedback to indicate success or failure of the provisioning request. Customer service representatives are empowered by ASAP's ability to reduce the service delivery interval from days or weeks to seconds or minutes. ASAP reduces provisioning costs and provisioning errors are reduced through the elimination of manual processes . Cash flow is enhanced through real-time notification of customer service changes to the billing department. ASAP pays for itself in a relatively short period of time.

Our competitive advantage lies in the fact that ASAP operates independently of the host systems and network switching technology, permitting the scheduling, prioritizing, coordination and management of multiple requests to an ever-increasing number of diverse network elements and technologies: narrowband, broadband, wireless and the Internet. The provisioning cycle is triggered by requests which may originate from multiple diverse sources, including service order systems, interactive voice response systems, the Internet, field technicians, or a related Operations Support System. ASAP translates the service requests from



ASAP is a single, intelligent gateway between the service requesting systems and the network elements in a telecommunications network. ASAP translates service requests into network element commands enabling instant activation of services and features in the network.

any of these sources into network element commands for the actual network element to be provisioned. ASAP then immediately notifies the service requester as to whether the service request has been successfully implemented. ASAP is truly an enterprise wide solution, the key to offering bundled services across varied network technologies. ASAP also establishes a foundation for customer self-service, an essential element for continuing competitiveness.

Another distinguishing feature of ASAP is its award winning, high availability architecture, allowing it to operate on an effective real-time basis, 24 hours per day, 365 days per year to provide a seamless, mission critical, fault tolerant solution. This significant enhancement to ASAP was developed in response to the needs of the larger established telecommunications service providers.

ASAP also significantly reduces the time it takes to introduce new services. Its architecture allows a telecommunications service provider to rapidly introduce new network elements and network services through quick, easy and inexpensive network element interface development, often without the need for changes to the ASAP code. Importantly, ASAP will maintain compatibility with both legacy and emerging systems as well as network technologies.

ASAP has been developed as a hardware-independent, client-server solution. Utilizing Sybase database and middleware technology, ASAP runs on the current versions of the UNIX platforms of Hewlett-Packard, SUN Microsystems, IBM, NCR and Silicon Graphics. ASAP is a totally open systems environment - interfacing to service management and network management systems and devices across multiple technologies, protocols, transport mediums and platforms. ASAP supports both domestic and international communication and interface standards.

ASAP CUSTOMERS

ASAP is a proven technology in use with telecommunications service providers worldwide. Since its original deployment at NBTel in 1992, ASAP has been licensed to a variety of small, medium and large companies in North America, Europe and Asia/Pacific. ASAP's architecture allows it to be scaled to meet the current and future growth requirements of telecommunications service providers, from start-ups to the large RBOC (Regional Bell Operating Company). The Company's target market segments are wireless, wireline (local and long distance narrowband and broadband), Competitive Access Providers (CAPs) and cable companies.

The following is a list of customers who have licensed our ASAP software:

CANADA

NBTel
MT&T
NewTel Communications
Bell Mobility

EUROPE

TeleNor (Norway)
Energis (United Kingdom)

UNITED STATES

NYNEX
U S WEST
Bell Atlantic
MCImetro

ASIA/PACIFIC

Telecom New Zealand
TIME Telekom (Malaysia)

CARIBBEAN

Bermuda Telephone

Each license agreement to date has allowed us to develop a close working relationship with our customers, enabling us to significantly enhance ASAP and our knowledge of advanced Operations Support Systems.

Telecommunications service providers are also facing a growing need for other Operations Support Systems beyond service activation. As the telecom market continues to expand and develop, products which are focussed on specific segments will increasingly be in demand. Architel is responding to those trends by exploring new products and derivative products. Exciting opportunities exist in the areas of work force management, service assignment systems and for targeted product offerings in specific market segments such as cable companies and wireless carriers.

WORKFORCE MANAGEMENT PRODUCT

Our workforce management product, FAMIS (Field Access Management Information System), provides comprehensive management of field technicians in the customer and network services areas, including automatic scheduling, prioritization and dispatch of service orders and trouble tickets. Coordination of the field work force associated with installation and repair service requests is an important component of the integrated service delivery vision. FAMIS enables telecommunications service providers to achieve and sustain significant improvements in customer service and reduce costs through:

- a reduction in the number of dispatchers and testers required to coordinate work force management;
- a reduction in time spent by the field work force on such activities as travel, receiving work, closing jobs, materials handling and on-line testing;
- a reduction in the requirement for re-work and a lowering of inventory levels as a result of improved work practices and materials planning;
- an improvement in cost recovery for "fee for service" work and improved information for budget and rate setting; and
- the ability to easily capture data once through the field technician, eliminating multiple data entries and potential errors associated with current systems.

Since its initial deployment at NBTel in 1989, FAMIS has been licensed to Maritime Telegraph & Telephone Company Limited, Saskatchewan Telephone Company Limited and The Newfoundland Telephone Company Limited. We have also customized a craft access system for Ameritech Corporation.

Within the rapidly changing telecommunications industry, new 'best-in-class' workforce management and technical field access solutions are required. We are currently in the planning stages for the development of the next generation FAMIS solution and with over ten years of experience in workforce management, Architel is well poised to exploit this market opportunity.

RESEARCH AND DEVELOPMENT

In the last year, we considerably strengthened our research and development capabilities in all areas, including research, design, development, testing, quality control and documentation. Overall, we have doubled the number of employees in the research and development team, with a total of 60 at year end. This growth reflects our commitment to product development and product enhancement. It also reflects the additional skills required to effectively compete in the rapidly changing telecommunications industry, where new standards and technologies are constantly being developed and revised. Important new skills are constantly being acquired with respect to emerging technologies.

Major product initiatives during the year included the development of ASAP generation 4.0, which significantly enhances the capabilities of ASAP to include broadband provisioning.

A major focus over the foreseeable future will be to work closely with our customers to continually enhance ASAP and to identify new Operations Support Systems needs, while ensuring that our products support emerging standards, such as TMN (Telecommunications Management Network), as well as leading network element technologies and leading hardware and software vendors. We will also continue to investigate strategies involving the use of ASAP beyond provisioning to support functions such as fault management, network management and possibly, certain mediation functions.

SALES

Our direct sales team is responsible for creating and developing strategic accounts in the North American market. Outside of North America, we sell either directly, or in partnership with systems integrators, including Andersen Consulting and IBM. Our sales directors are located in Spokane Wa., Washington D.C., Denver, Co., Dallas, Tx. and Toronto, Ont. Currently 8 individuals have primary responsibility for sales, and work closely with our marketing, software engineering and professional services groups, as valued participants in the sales process.

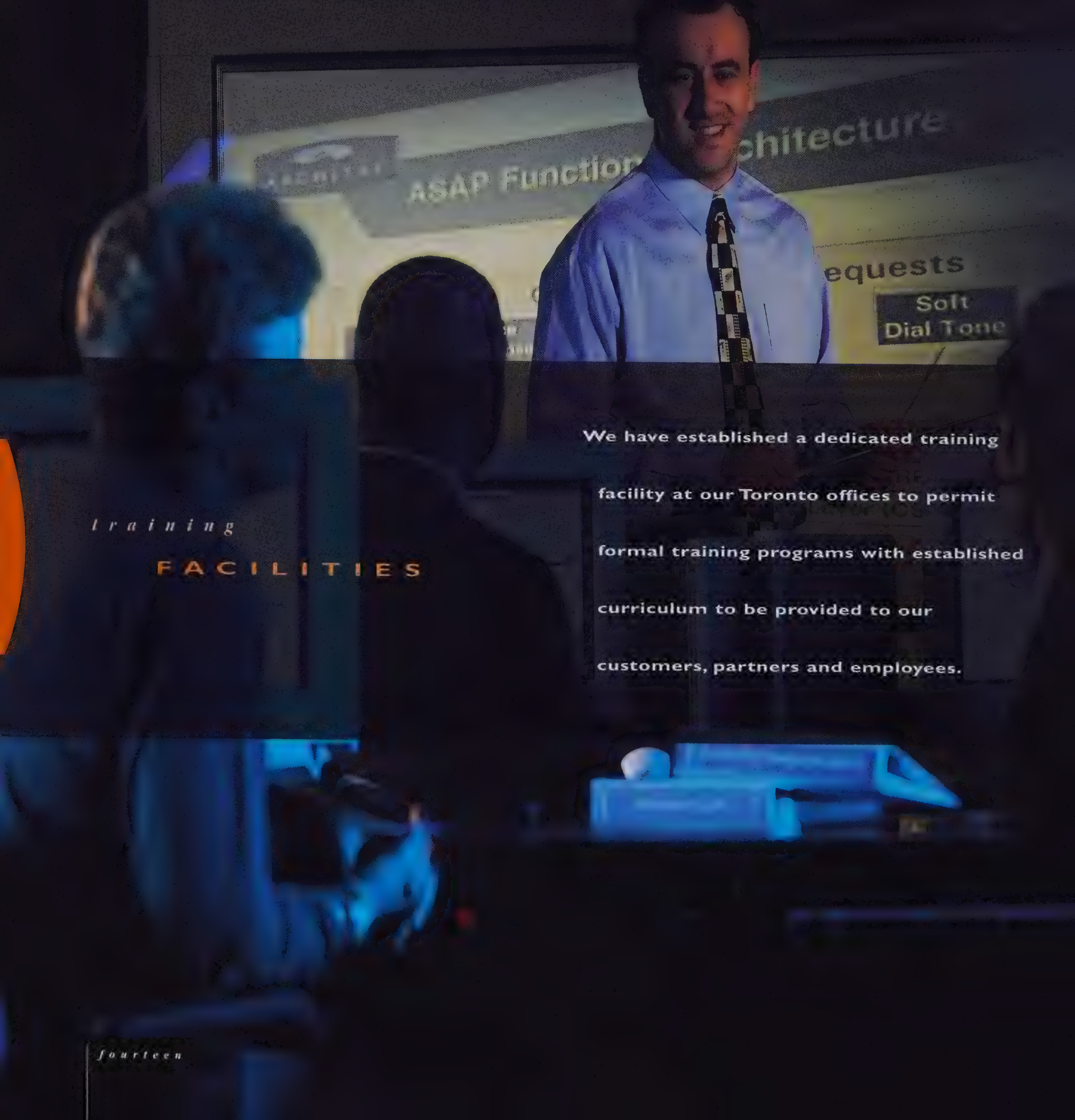
During the year, the Vice-President, Sales and Marketing was appointed Senior Vice President, Business Development with responsibility for sales partnerships outside of North America and for establishing relationships with channel partners in those regions. Our Vice President, Sales was promoted from within the organization, and assumes responsibility for U.S. and Canada. An additional Sales Director has been hired in the Dallas region and we expect to hire a Sales Director in the Washington D.C. area in the near future. A dedicated sales support organization has been established, as we increase our efforts on a quality-focused selling process.

We intend to formalize relationships with network equipment suppliers, systems integrators and hardware/software vendors in strategic market areas. This will serve a number of objectives: expanding our sales and delivery capability to increase market penetration; to remain current with evolving technology changes which affect our solutions; and to provide support for customers who have multi-vendor technology networks and require complementary open Operations Support Systems solutions. We also intend to open an office in Europe in the coming year to support this process and to address opportunities created by impending telecom deregulation. A similar office in the Asia/Pacific region is also being considered.

From left – DANIEL K. VERMEIRE
Vice President, Sales

RICHARD KATHNELSON
Vice President, Human Resources

E. STUART GRIFFITH
Vice President, Finance and General Counsel



training

FACILITIES

We have established a dedicated training facility at our Toronto offices to permit formal training programs with established curriculum to be provided to our customers, partners and employees.

PROFESSIONAL SERVICES

We believe that the ability to deliver our software solutions in a timely manner and on budget is critical to our continuing success in developing long-term customer relationships. Our professional services group is responsible for providing worldwide implementation services to ensure this objective, whether such services are provided directly to a customer or as subcontractor to a systems integrator engaged by the customer. Consistent with our objective to be first and foremost a product company, our philosophy has been to limit the development of an expansive systems integration business. Instead we have developed a highly trained ASAP knowledgeable cadre of experts to provide value added assistance in the implementation process. In so doing, we will also avoid competing with our systems integration partners, with whom we are attempting to develop more formal sales and delivery arrangements.

During the year, due to a number of new licenses, we expanded the number of professional services staff to 34 at year end. We have now established a U.S. base for professional services in Washington D.C., as well as a new office in Denver. Architel has also established a dedicated training facility in our Toronto offices to permit formal training programs with established curriculum to be provided to our customers, partners and employees. The majority of the professional services group is now based in Washington D.C. with the remainder divided between Denver, Toronto and Spokane.

Our professional services group provides a wide range of services to our customers including requirements analysis, project management, systems design, customization and installation, training and on-site post production support. Members of our professional services group work closely with customers, and are able to develop valuable industry expertise, as well as identify emerging industry applications and potential enhancements to our products.

PRODUCT SUPPORT

Because of the mission critical nature of our products, our customers require software support capability on a 7 days a week, 24 hours per day basis. We are committed to providing world class customer support for our products, by constantly striving to exceed customers' expectations. We will continue to invest in this key area of our business ensuring we maintain a high level of service to our worldwide customer base.

Our product support group is committed to providing outstanding, time-zone independent, software support to our international client base that currently exceeds customer expectations.

Product support includes remote diagnostic support, minor upgrades and problem reporting and resolution. New significant features or modules are licensed on an individual basis and are paid for outside the cost of product support, which is usually subject to an annual fee based on a percentage of the license fee.

We currently have 18 employees in the product support group and expect to expand this group in the coming year. To maintain our high customer focus, we are also examining offering a variety of support options to address differing customer needs.

DISCUSSION AND ANALYSIS

OVERVIEW

Total revenues, excluding investment income of $1.0 million, increased to $18.0 million in 1996 from $11.2 and $4.4 million in 1995 and 1994, respectively. On a fully diluted basis, earnings per share were $0.20 in 1996 as compared with $0.26 in 1995 and nil in 1994. Although revenues increased significantly in 1996, earnings per share decreased principally as a result of three factors. Firstly, the Company issued a total of 3,384,300 shares in the initial public offering (including the associated exercise of the underwriters' over-allotment option) in March and April 1996. Secondly, approximately 1.3 million options to purchase common shares, mostly granted prior to the date of the initial public offering at dilutive prices, were issued throughout 1996 to attract and retain superior staff. These two factors combined resulted in a dilution effect of approximately 37% on earnings per share for fiscal 1996. Finally, expenditures increased at a higher rate than revenues to provide the continued growth in infrastructure required to successfully support existing and potential revenue streams. Specifically, significantly larger expenditures were required in research and development to maintain technological leadership in our ASAP product, in general and administrative expenses to increase the capacity of our product support and professional services groups, and in sales and marketing to effectively broaden market awareness. In addition, earnings per share were adversely affected by the amortization of the $3.0 million payment made to NBTel in lieu of all royalties in respect of future sales of ASAP for contracts entered into subsequent to June 30, 1995. It is anticipated that this amount will be fully amortized by the end of fiscal 1997. Excluding the effects of the amortization of this one-time royalty payment, fully diluted earnings per share would have been $0.24 for fiscal 1996.

In recent years, the Company has derived the majority of its revenues from sales denominated in U.S. dollars while most expenses have been incurred in Canadian dollars. Accordingly, the Company's operating results can be affected by changes in the exchange rate between U.S. and Canadian currencies. Specifically, an appreciation of the Canadian dollar in comparison to the U.S. dollar could adversely affect results. Historically, the Company has not engaged in hedging its U.S. dollar-denominated sales, due to the relative uncertainty in timing of receipts under its licensing agreements. It is anticipated that this exposure will decrease to a certain extent as the percentage of U.S. expenses will increase due to expansion of our operations in the U.S.

Due to the majority of the Company's revenues being derived from large contracts with a relatively small number of customers, revenue fluctuations occur in quarterly operating results and this trend is expected to continue at least in the short term.

RESULTS OF OPERATIONS

The table below sets forth, as a percentage of total revenues, items from the Company's Consolidated Statement of Operations for the years indicated:

	1996	1995	1994
REVENUE:			
License fees	69.3%	57.0%	18.0%
Professional services	20.4	31.4	61.3
Software support	8.5	10.5	20.7
Commissions and other income	1.8	1.1	-
Total revenue	100.0	100.0	100.0
EXPENSES:			
General and administrative	47.3	40.2	72.4
Sales and marketing	11.4	11.3	12.4
Research and development	13.4	7.2	8.9
Royalties	6.8	5.4	2.0
Depreciation and amortization	5.2	3.0	3.3
Total operating expenses	84.1	67.1	99.0
Income from operations	15.9	32.9	1.0
Interest income	5.5	.4	-
Income before income taxes	21.4	33.3	1.0
Provision for income taxes	9.2	14.2	.5
Net Income	12.2	19.1	.5
Net earnings per share:			
Basic	.21	.34	.01
Fully Diluted	.20	.26	-
Weighted average number of shares:			
Basic	10,251,362	6,232,204	5,777,034
Fully Diluted	11,539,490	8,167,967	5,957,034

REVENUE:

in thousands	1996		1995		1994	
License Fees	$ 12,455	69.3%	$ 6,358	57.0%	$ 785	18.0%
Professional Services	3,675	20.4	3,503	31.4	2,675	61.3
Software Support	1,526	8.5	1,167	10.5	902	20.7
Commissions and Other Income	320	1.8	128	1.1	0	-

The Company derives its revenue from three principal types of activities which are license fees, professional services and software support.

LICENSE FEES

Revenue from end-user license fees is generally recognized on the percentage of completion basis over a 4 to 18 month period depending on the amount of work required for the implementation of our product at a customer site. In a limited number of situations, however, license fees are recognized on a milestone basis, where, for example, the related license contract provides for acceptance upon delivery of software or revenue is based on the growth in a customer's business (number of access lines, etc.) over a number of years. The increase in license fee revenue in 1996 of 95.9%, was principally as a result of new ASAP licenses to 2 RBOC's, a Competitive Access Provider and a wireless provider. The increase in license fee revenue in 1995 was a result of revenue earned from the first license of ASAP to an RBOC and ASAP licenses to two start-up providers located in the United Kingdom and Pacific/Asia region. Revenue earned from FAMIS licenses were immaterial for

fiscal 1996 and management does not anticipate any material amounts arising for fiscal 1997. It is management's objective that license fees will range from 55% to 65% of total revenues in the future as we continue our focus on being a product development company as opposed to a systems integration business. However, this percentage may vary depending upon particular projects underway in a specific reporting period.

Backlog of license fee contracts, representing license fees under contract in force at year end, was $15.2 million at September 30, 1996 which was an increase of 141% from the backlog of $6.3 million as at September 30, 1995. Management anticipates that approximately 70% of the September 30, 1996 backlog will be recognized in revenue during the 1997 fiscal year with the remaining portion being recognized in subsequent years. Timing of recognition of backlog of license fees can vary materially as a result of many factors including changes in project implementation schedules by our customers. The Company also has entered into contracts providing for future professional services and software support services which is not included in the backlog amounts.

PROFESSIONAL SERVICES

Professional services revenue is generally recognized on a time and materials basis and varies between contracts depending on the level of the Company's involvement in the implementation of our software. Typically, professional services contractual arrangements are made concurrently with the signing of license agreements. Professional services revenue increased by 4.9% from $3.5 million in 1995 to $3.7 million in 1996, however, as a percentage of total revenues decreased from 31.4% in 1995 to 20.4% in 1996. Services provided in respect of our ASAP product increased to $3.3 million in 1996 from $2.7 million in 1995 and $1.9 million in 1994 due to services provided in connection with the increased number of ASAP licenses sold. Services provided in connection with our FAMIS/Handheld products declined to $372,000 in 1996 from $797,000 in 1995 and $822,000 1994 due principally to the completion of the installation phases at various client sites. Management is not anticipating significant FAMIS professional services revenue for fiscal 1997 as we are re-examining our strategy for this product. In 1994, professional services revenue was 61.3% of total revenues due to our extensive involvement in the implementation of ASAP at customer sites and relatively lower amount of ASAP license fees. In the future, our objective is for professional services revenue to approximate 25% to 35% of total revenues as we intend to rely on our key strategic partners to assume the major aspects of the systems integration process with customers. This amount may vary, however, due to the level of our involvement in particular projects.

SOFTWARE SUPPORT

Software support fees, usually payable annually in advance, range from 15% to 22.5% of the license fee per annum and are recognized over the period of the contract. Revenue from software support arises with both the ASAP and FAMIS products. At September 30, 1996, our customer base covered by product support contracts consisted of a total of 10 which were evenly divided between ASAP and FAMIS/Handheld products. This number excludes other customers who are currently receiving support under the limited warranty periods as specified in license agreements. These customers are expected to contract for annual support following expiry of the warranty period.

COMMISSIONS AND OTHER INCOME

Commissions and other income consist principally of commissions earned on complementary third party software purchased by our customers in conjunction with the purchase of ASAP. Revenue for sales of third party software are not included in the Consolidated Statement Of Operations, as these transactions are made directly between our customer and the third party software supplier. The increase in commissions to $320,000 in 1996 from $128,000 in 1995 and nil in 1994 is a result of larger purchases by our customers of a third party database software product in conjunction with more significant ASAP licenses.

SALES BY GEOGRAPHIC REGION - ALL CATEGORIES COMBINED

in thousands	**1996**		1995		1994	
Canada	**$ 2,737**	**15.2%**	$ 2,066	18.5%	$ 1,484	34.0%
United States	**11,594**	**64.5**	5,984	53.6	794	18.2
Europe/Asia Pacific	**3,645**	**20.3**	3,106	27.9	2,084	47.8
Total	**$ 17,976**	**100.0%**	$ 11,156	100.0%	$ 4,362	100.0%

Over the past three years, the majority of the Company's sales have been made to customers located outside of Canada. This trend is expected to continue as our ASAP product is primarily in demand in those countries where deregulation exists and competitive pressures are high.

GENERAL AND ADMINISTRATIVE:

in thousands	**1996**	1995	1994
General and administrative expenses	**8,509**	4,481	3,157
Percentage increase over prior year	**89.9%**	41.9%	99.5%

General and administrative expenses consist primarily of salaries and benefits of all administrative, professional services, software support, and internal information technology services personnel. In addition, all related overhead costs are included within general and administrative expenses. For fiscal 1997 financial reporting purposes, it is our intention to report the costs for both product support and professional services separately from other general and administrative expenses. During fiscal 1996, prior to allocations of related overhead expenses, professional services expenditures amounted to $2,182,400 and software support costs were $1,101,700.

The increase in general and administrative expenses in 1996 were primarily as a result of the expansion of the Toronto head office to 27,300 square feet to accommodate significantly more staff, recruiting and hiring expenses related to new staff, and increased training expenses. The head office facilities in Toronto support all administrative functions including finance, human resources, legal, information technology services, software support, training, and approximately 40% of the professional services group. As well, increased general and administrative expenses resulted from the set-up of a Washington office during fiscal 1996, which is our base for the professional services group. Future increases in general and administrative expenses will be dependent upon additional sales of license fees, the extent of the related involvement of professional services and the number of customers contracting for support. With respect to office facilities, we do not anticipate any expansion in Toronto for fiscal 1997, but capacity may be added in other locations.

SALES AND MARKETING:

in thousands	**1996**	1995	1994
Sales and marketing expenses	**2,054**	1,260	542
Percentage increase over prior year	**63.0%**	132.5%	65.2%

Sales and marketing expenses include salaries, benefits and commissions paid to sales personnel, and expenses related to trade shows, conferences, promotional activities, marketing communication materials, and sales travel. Sales and marketing expenses increased in 1996 from prior years principally as a result of the expansion of the sales and marketing infrastructure, an increase in the participation at our annual provisioning workshop, more involvement at industry forums, new collateral materials and higher travel expenses incurred to develop a larger customer base. As a percentage of revenues, sales and marketing expenses remained relatively unchanged at 11.3% in fiscal 1995 as compared with 11.4% in fiscal 1996. It is expected that sales and marketing expenses will represent a larger percentage of revenues for the 1997 fiscal year as this group is expanded to take advantage of current and potential market opportunities.

RESEARCH AND DEVELOPMENT:

in thousands	**1996**	1995	1994
Net research and development expenses	**2,404**	801	387
Percentage increase (decrease) over prior year	**200.1%**	106.9%	(28.1%)

Research and development expenses consist primarily of technical development personnel salaries and benefits, consulting fees, travel expenses and other directly attributable costs. In accordance with generally accepted accounting principles in Canada, the Company has expensed all research costs as incurred. Development costs have also been expensed as they have not met the criteria for deferral under generally accepted accounting principles. Research and development costs increased significantly due to further development of the ASAP product, including the High Availability option and AIMS (ASAP Information Management System), the GUI-based application for managing and configuring ASAP. The Company intends to at least maintain a level of expenditures similar to fiscal 1996, as a percentage of revenues in the foreseeable future.

Under the Income Tax Act(Canada), certain research and development activities performed by the Company qualify for investment tax credits which accrue at a rate of 20% (35% for fiscal 1995 and previous years) of eligible research and development expenditures. These credits are recorded when there is reasonable assurance of realization and for the year ended September 30, 1996, investment tax credits in the amount of $209,000 were netted against gross research and development expenses. This is a 100% increase from investment tax credits of $95,000 in 1995 and was a result of credits arising from increased expenditures as noted above which were associated with the additional development of ASAP.

ROYALTIES:

in thousands	**1996**	1995	1994
Paid/Payable to NBTel	**231**	514	87
Amortization of Royalty	**997**	90	-
Royalty expenses	**1,228**	604	87

Cash royalties and amortization of royalty relate solely to a prior arrangement with NBTel (New Brunswick Telephone Company Limited). An earlier version of the current ASAP product (OLSPII) was developed in conjunction with NBTel under an agreement providing that OLSPII be jointly owned and Architel retain exclusive marketing rights in return for royalties payable to NBTel at a rate of 20% for sales in Canada and 15% elsewhere. By subsequent agreement dated January 26, 1996, NBTel agreed to transfer to Architel, NBTel's ownership interest in OLSPII and any related copyrights, patents and trade secrets in consideration of the payment by Architel to NBTel of $3.0 million in lieu of all royalties payable to NBTel in respect of future sales of ASAP for which a contract was not entered into prior to June 30, 1995. The $3.0 million payment in respect of the January 26, 1996 agreement is being amortized against income based on future revenue from the ASAP software over a period not to exceed three years.

Royalties increased by 103% from $604,000 in 1995 to $1.2 million in 1996 principally as a result of increased sales of ASAP licenses. Approximately $75,000 remains to be expensed in respect of royalties arising on contracts for ASAP entered into prior to June 30, 1995 and this amount will be realized during the first two quarters of fiscal 1997. Management anticipates that substantially all of the remaining $1.9 million, of the $3.0 million payment made to NBTel in lieu of royalties for ASAP contracts entered into subsequent to June 30, 1995, will be amortized to income during fiscal 1997.

DEPRECIATION AND AMORTIZATION:

in thousands	**1996**	1995	1994
Depreciation and amortization	**924**	337	144
Percentage increase over prior year	**174.2%**	134.0%	35.0%

The significant increase in depreciation and amortization in respect of capital assets is principally as a result of the leasehold improvements associated with the expansion of the Toronto head office, new computer hardware and software for additional staff, construction of a new computer facility to support the product development and product support groups, and general increases in office equipment and furniture to support our large growth over the past two years. This trend is expected to continue, although probably not at the same rate, due to expansion in the U.S. and outside of North America.

INTEREST INCOME:

Interest income of $985,000 for fiscal 1996 increased significantly from interest income of $45,000 in 1995 and a negligible amount in 1994. The large increase was principally a result of the investment of the proceeds from both the Company's initial public offering in March 1996 and the exercise of the underwriters' overallotment option in April 1996. It is anticipated that the current levels of interest income will continue for the near future as generally positive cash flows from operations are expected.

INCOME TAXES:

	1996	1995	1994
Income tax rate	**42.9%**	42.5%	45.0%

The Company's combined Canadian statutory income tax rate currently approximates 44% and the actual effective tax rate can vary from the statutory rate due to income being earned in foreign jurisdictions with different tax rates. In addition, under tax legislation, certain items are either non-taxable or non-deductible for income tax purposes. Accordingly, the provision for income taxes does not necessarily equal the Canadian statutory rate. The rates for fiscal 1996 and 1995 were lower than the Canadian statutory rate principally due to income being earned in a jurisdiction with a lower rate. The higher rate incurred in fiscal 1994 was due to the effects of non-deductible items for tax purposes being relatively high as compared with the low amount of income in that year. The effective tax rate should remain lower than the Canadian statutory rate as expansion continues outside of Canada to support foreign business opportunities.

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

The Company ended the 1996 year in a highly liquid position as working capital increased from $31,000 in 1994 and $1.1 million in 1995 to $30.4 million in 1996. The increase in working capital was primarily the result of the issuance of common shares for net proceeds of $30.6 million. From the proceeds of the initial public offering, a $3.0 million payment was made to the Company's banker to extinguish the demand installment loan incurred to make the royalty payment to NBTel. In addition, the Company generated cash flows from operations, excluding changes in non-cash working capital items, of $4.3 million during 1996 which exceeded the $2.7 million and $187,000 generated in 1995 and 1994 respectively. The Company generated positive cash flows in each quarter of fiscal 1996 and 1995.

As at September 30, 1996, the Company's available funds consisted of $27.7 million ($28.4 million at market value) in cash and short-term investments and $1.0 million in an unutilized revolving demand credit facility with a Canadian chartered bank. This facility is secured by a general security agreement covering all assets of the Company and a first charge on all intellectual property. This high level of liquidity is expected to continue throughout fiscal 1997, although it may be subject to minor fluctuations on a quarterly basis due to timing of billing milestones on large projects. Excess funds are invested in highly rated government and corporate bonds with maturity dates ranging from 1 to 5 years and on assets held in the portfolio as at September 30, 1996 the average rate of return was approximately 7%. It is not the Company's intention to pay dividends in the foreseeable future.

Historically, the Company has financed its growth through cash from operations, shareholder loans and to a very limited extent, short-term bank borrowings. The Company anticipates that with the current high level of cash resources on hand, available borrowings under its demand facility and continuing positive internal cash flows from operations, levels of planned activity will be well supported in the foreseeable future. No significant capital commitments exist, however, the Company has long term lease commitments as disclosed in Note 10 of the Notes to the Consolidated Financial Statements that relate principally to office facilities and computer equipment for research and development purposes. Although no non-lease related current commitments, letters of intention or agreements are presently under consideration, the Company will occasionally consider potential acquisitions of complementary businesses, products or technologies to further enhance growth prospects. Management believes that inflation did not have a material effect on operations in the 1996 fiscal year.

CAPITAL EXPENDITURES

Capital expenditures increased by 168% from approximately $1.1 million in 1995 and $295,000 in 1994 to $3.1 million in 1996 principally as a result of the expansion in the Toronto head office to approximately 27,000 square feet and the associated purchases of computer hardware and software, office equipment and furniture and fixtures. These large expenditures were necessary to support the significant growth in staff from 33 in September 1994 to 141 in September 1996.

The Company anticipates that capital expenditures for 1997 will generally approximate those of fiscal 1996 due to the continued investment in computer hardware and software for research and development purposes, setup of permanent Washington and Denver offices, and potentially a European head office for overseas business opportunities.

management's responsibility for
FINANCIAL REPORTING

The accompanying financial statements and the information contained in this annual report are the responsibility of management and have been approved by the Board of Directors. Financial and operating data elsewhere in this annual report are consistent with the information contained in the financial statements.

These financial statements and all other information have been prepared by management in accordance with accounting principles generally accepted in Canada. Some amounts included in the financial statements are based on management's best estimates and have been derived with careful judgment.

In fulfilling its responsibilities, management has developed and maintains a system of internal controls. These controls ensure that assets are safeguarded from loss or unauthorized use and that financial records are reliable for the purpose of preparing financial statements. The Board of Directors carries out its responsibility for the financial statements through the Audit Committee which consists of a majority of non-managing directors. The Audit Committee periodically reviews and discusses financial reporting matters with the Company's auditors, Deloitte & Touche, as well as with management.

The financial statements have been audited by Deloitte & Touche, Chartered Accountants.

ANTHONY P. VAN MARKEN

President and Chief Executive Officer

E. STUART GRIFFITH

Vice President, Finance and General Counsel

auditors'

REPORT

To the Shareholders of
ARCHITEL SYSTEMS CORPORATION

We have audited the consolidated balance sheets of Architel Systems Corporation as at September 30, 1996 and 1995 and the consolidated statements of operations and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in Canada.

Deloitte & Touche

Chartered Accountants
November 8, 1996

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BALANCE SHEETS

ARCHITEL SYSTEMS CORPORATION *As at September 30*

Notcross-listed in '96

	1996	1995
ASSETS		
CURRENT		
Cash and short-term investments (market value $28,394,867; 1995 - $1,007,829)	**$ 27,716,597**	$ 1,007,829
Accounts receivable (Note 2)	**5,954,056**	3,644,401
Investment tax credit recoverable (Note 3)	**460,100**	251,100
Prepaid expenses	**193,363**	90,878
	34,324,116	4,994,208
CAPITAL ASSETS (Note 4)	**3,208,542**	1,063,818
DEFERRED ROYALTY (Note 5)	**1,912,700**	2,910,000
DEFERRED INCOME TAXES	**694,240**	-
	$ 40,139,598	$ 8,968,026
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Note 5)	**$ 1,725,970**	$ 2,078,153
Income taxes payable	**356,019**	1,132,442
Deferred revenue	**1,812,798**	644,195
Current portion of obligations under capital leases (Note 6)	**-**	6,871
	3,894,787	3,861,661
OTHER		
Payable under royalty agreement (Note 5)	**-**	2,580,000
Deferred income taxes	**-**	176,000
	-	2,756,000
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 7)	**32,259,102**	556,878
RETAINED EARNINGS	**3,985,709**	1,793,487
	36,244,811	2,350,365
	$ 40,139,598	$ 8,968,026

Approved by the Board

Director *Director*

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OPERATIONS AND RETAINED EARNINGS

ARCHITEL SYSTEMS CORPORATION

Years ended September 30

	1996	1995
REVENUE		
License fees	$ 12,455,239	$ 6,358,490
Professional services	3,674,915	3,503,353
Software support	1,526,087	1,166,554
Commissions and other income	319,927	127,642
	17,976,168	11,156,039
EXPENSES		
General and administrative	8,508,723	4,481,195
Sales and marketing	2,054,190	1,259,553
Research and development (Note 3)	2,403,842	801,524
Royalties (Note 5)	1,227,600	603,825
Depreciation and amortization	924,581	337,196
	15,118,936	7,483,293
INCOME BEFORE INTEREST INCOME AND INCOME TAXES	2,857,232	3,672,746
INTEREST INCOME	984,990	45,511
INCOME BEFORE INCOME TAXES	3,842,222	3,718,257
PROVISION FOR INCOME TAXES (Note 8)	1,650,000	1,580,000
NET INCOME FOR THE YEAR	2,192,222	2,138,257
RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR	1,793,487	(344,770)
RETAINED EARNINGS, END OF YEAR	$ 3,985,709	$ 1,793,487
EARNINGS PER SHARE (Note 9)		
Basic	$ 0.21	$ 0.34
Fully diluted	$ 0.20	$ 0.26

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CHANGES IN FINANCIAL POSITION

ARCHITEL SYSTEMS CORPORATION — *Years ended September 30*

	1996	1995
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Net income for the year	$ 2,192,222	$ 2,138,257
Items not affecting cash		
Depreciation and amortization	1,921,881	427,196
Deferred income taxes	210,060	162,000
	4,324,163	2,727,453
Changes in non-cash working capital items	(2,161,143)	(944,750)
	2,163,020	1,782,703
INVESTING		
Purchase of capital assets	(3,069,305)	(1,144,359)
Deferred royalty	-	(3,000,000)
	(3,069,305)	(4,144,359)
FINANCING		
Advances from shareholder	-	500,000
Repayments to shareholders	-	(555,000)
Loans from shareholder converted into common shares	-	(30,000)
Repayment of principal portion of obligations under capital leases	(6,871)	(28,769)
Payable under royalty agreement	(3,000,000)	3,000,000
Issuance of common shares, less non-cash deferred tax benefit	30,621,924	30,001
	27,615,053	2,916,232
NET CASH INFLOW	26,708,768	554,576
CASH AND SHORT-TERM INVESTMENTS, BEGINNING OF YEAR	1,007,829	453,253
CASH AND SHORT-TERM INVESTMENTS, END OF YEAR	$ 27,716,597	$ 1,007,829

1. ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include the accounts of the Company and its wholly-owned subsidiary companies, Architel Systems (U.S.) Corporation and Architel Systems (U.K.) Limited.

CAPITAL ASSETS

Capital assets are stated at cost less accumulated depreciation. Equipment under capital leases is stated at capitalized values less accumulated amortization.

Depreciation and amortization is recorded using the following rates and methods:

Computer equipment	-	2 years straight-line
Computer software	-	2 years straight-line
Furniture and equipment	-	20% per annum declining-balance
Leasehold improvements	-	Over term of lease
Computer equipment under capital leases	-	2 years straight-line

LEASES

Leases are classified as capital or operating leases. Leases which transfer substantially all of the benefits and risks incidental to ownership are classified as capital leases; all other leases are recorded as operating leases with rental payments being expensed as incurred. At the inception of a capital lease, an asset and an obligation are recorded at an amount equal to the lower of the present value of the minimum lease payments and the leased asset's fair value.

RECOGNITION OF REVENUE

License fees and professional services revenue are generally recognized using the percentage of completion method. On long-term contracts, revisions to cost and profit estimates made during the course of work are reflected in the period in which the change is known. Provision is made in full for any anticipated loss when the estimate of total costs on a contract indicates a loss. Certain contracts contain incentive and/or penalty provisions based on achieving performance milestones. These awards or penalties are included in income when realized or incurred.

Software support revenue is recognized over the term of the contract.

Deferred revenue represents billings in advance of the services provided.

Accrued revenue for contracts in progress, included under accounts receivable, represents services performed but not billed.

DEFERRED ROYALTY

Deferred royalty consists of payment made in lieu of all royalties arising on future sales of ASAP (Automatic Service Activation Program) from July 1, 1995 onward. This amount is being amortized at a rate of 10% based on ASAP license fee revenues for contracts entered into subsequent to June 30, 1995.

RESEARCH AND DEVELOPMENT COSTS AND INVESTMENT TAX CREDITS

Research costs are expensed as incurred.

Development costs are expensed as incurred unless they meet the generally accepted accounting criteria for deferral and there is reasonable assurance they will be recovered. In the two years ended September 30, 1996, all development costs have been expensed as incurred.

Investment tax credits are recognized as a reduction of research and development costs when there is reasonable assurance that they will be realized.

FOREIGN CURRENCY TRANSLATION

The financial statements of the Company's foreign subsidiaries, both of which are considered to be operationally dependent upon the Company, are translated using the temporal method. Under this method, revenues and expenses are translated at rates in effect on the transaction date. Monetary assets and liabilities are translated at the rate of exchange at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates. Exchange gains and losses on translation are included in the statement of operations.

2. ACCOUNTS RECEIVABLE

	1996	1995
Billed receivables	$ 1,318,103	$ 1,500,559
Accrued revenue for contracts in progress	4,635,953	2,143,842
	$ 5,954,056	$ 3,644,401

3. INVESTMENT TAX CREDIT RECOVERABLE

For the year ended September 30, 1996, investment tax credits in the amount of $209,000 (1995 - $95,000) have been recognized as a reduction of research and development cost.

4. CAPITAL ASSETS

	Cost	1996 Accumulated Depreciation and Amortization	Net Book Value
Computer equipment	$ 1,920,038	$ 1,151,527	$ 768,511
Computer software	924,751	565,768	358,983
Furniture and equipment	1,389,119	300,069	1,089,050
Leasehold improvements	1,064,052	72,054	991,998
	$ 5,297,960	$ 2,089,418	$ 3,208,542

	Cost	1995 Accumulated Depreciation and Amortization	Net Book Value
Computer equipment	$ 999,704	$ 645,726	$ 353,978
Computer software	543,053	313,176	229,877
Furniture and equipment	510,148	137,641	372,507
Leasehold improvements	102,925	5,149	97,776
	2,155,830	1,101,692	1,054,138
Computer equipment under capital leases	72,926	63,246	9,680
	$ 2,228,756	$ 1,164,938	$ 1,063,818

Amortization expense includes $9,781 (1995 - $25,696) for computer equipment under capital leases.

5. DEFERRED ROYALTY

Under the terms of an agreement dated as of January 26, 1996, the Company acquired rights to an early version of certain software, which had been jointly developed by the parties to the agreement. The agreement provides that the other party will retain certain rights for the internal use of and to market this version of the software. Under the terms of a previous agreement, which expired on June 30, 1995, the Company paid royalties based on sales of this

software. The new agreement required that the Company make a payment of $3,000,000 in lieu of all royalties payable in respect of software contracts entered into after June 30, 1995. This payment is being amortized against income based on the future revenue from this software over a period not to exceed three years; for the year ended September 30, 1996, the amount charged was $997,300 and for the period July 1, 1995 to September 30, 1995, the amount charged was $90,000. These amounts are included in royalties in the Consolidated Statement of Operations.

To finance the cost of this payment, the Company arranged with its bankers for a demand installment loan of $3,000,000, repayable $84,000 monthly, plus interest, commencing in May, 1996. In the year ended September 30, 1995, the current portion payable of $420,000 representing payments due to September 30, 1996 was included in accounts payable and accrued liabilities. The Company, however, repaid the entire loan prior to September 30, 1996.

6. OBLIGATIONS UNDER CAPITAL LEASES

	1996	1995
Future obligations	$ -	$ 7,209
Less amounts representing interest	-	338
Present value of net obligations	-	6,871
Less current portion	-	6,871
Long-term portion of obligations under capital leases	$ -	$ -

Interest of $338 (1995 - $3,534) was expensed during the year relating to the obligations under capital leases.

7. SHARE CAPITAL

	1996	1995
Authorized		
Unlimited number of common shares		
Unlimited number of preferred shares, issuable in series		
Issued - 12,340,144 common shares (1995 - 3,171,102)	$ 32,259,102	$ 556,878

A summary of changes to issued share capital is as follows:	Number of Shares	Amount
Issued and outstanding at September 30, 1994	1,027,034	$ 526,877
Conversion of outstanding loan	10,000	30,000
Stock split on a 3 for 1 basis	2,074,068	-
Issue of shares for cash under the Flexible Share Incentive Plan	60,000	1
Issued and outstanding at September 30, 1995	3,171,102	556,878
Issue of shares for cash prior to the 2 for 1 split under the Flexible Share Incentive Plan and to an external investor, net of cancellations	870,490	506,298
Stock split on a 2 for 1 basis	4,041,592	-
Issue of shares for cash under the Flexible Share Incentive Plan, post 2 for 1 split	857,550	254,267
Issue of shares for cash under the 1996 Stock Option Plan	15,110	143,545
Issue of shares for cash in initial public offering, net of after tax issue costs	3,384,300	30,798,114
Issued and outstanding at September 30, 1996	12,340,144	$ 32,259,102

On March 18, 1996, the Company issued by way of an initial public offering 2,984,300 common shares. On April 17, 1996, an additional 400,000 shares were issued pursuant to the exercise of an over-allotment option by the underwriters. Total gross proceeds from the initial public offering were $32,150,850.

The Company maintains a share option arrangement (Flexible Share Incentive Plan) for directors, officers and employees. As at September 30, 1996, options are outstanding under this plan for the purchase of 339,600 (1995 - 1,026,165) shares at a price of $.30 per share. Of these outstanding options, 159,600 were granted in January 1995 and can be exercised at any time following vesting until they expire ten years from the grant date. Of these options, 131,100 remain unvested as at September 30, 1996 and will vest evenly on January 1 in 1997 and 1998. The remaining 180,000 fully vested options were granted to a director in September 1994 and may be exercised until March 31, 1997. No additional options can be issued under the Flexible Share Incentive Plan.

On January 22, 1996, the Board of Directors adopted a new share option plan (the "1996 Stock Option Plan") under which options to purchase common shares may be granted by the Board of Directors, or a committee thereof, with an exercise price not less than the market price of the common shares at the date of grant. During 1996, options to purchase 588,610 common shares were issued to employees, including officers, at an exercise price ranging from $8.20 to $9.50 per share. Of these options, 15,110 were exercised during the year and the remaining 573,500 options are exercisable as to 25% on and after the date of grant and as to 25% on and after each of the first, second and third anniversaries of the date of grant and must be exercised on or prior to the tenth anniversary of the date of grant.

On January 19, 1996, the articles of the Company were amended to effect a 2 for 1 stock split of the number of outstanding common shares and to create an unlimited number of shares, designated as preferred shares, issuable in series. The number of options to purchase common shares, outstanding on January 19, 1996, was automatically subdivided on a 2 for 1 basis.

8. PROVISION FOR INCOME TAXES

	1996	1995
Current	**$ 1,517,000**	$ 1,418,000
Deferred	**133,000**	162,000
	$ 1,650,000	$ 1,580,000

Income taxes expense, including both the current and deferred portions, varies from amounts which would be computed by applying the Company's combined statutory income tax rate as follows:

	1996	1995
Combined rate of income taxes at 44.62% (1995 - 44.43%)	**$ 1,714,000**	$ 1,652,000
Increase (decrease) resulting from:		
Permanent differences	**(40,000)**	49,000
Drawdown of deferred taxes recorded at a lower rate	**-**	(57,000)
Effect of lower tax rate on foreign income	**(24,000)**	(64,000)
	$ 1,650,000	$ 1,580,000

9. EARNINGS PER SHARE

Basic earnings per share are calculated using the weighted monthly average number of common shares outstanding during the years.

Fully diluted earnings per share are calculated under the assumption that all share options outstanding at the end of the year had been exercised at the later of the beginning of the year and the date of grant.

On November 1, 1996, the Company issued additional options to purchase 33,000 common shares at a price of $9.50 per share. These options have not been reflected in the calculation of fully diluted earnings per share for the years ended September 30, 1996 and 1995.

10. LEASE COMMITMENTS

The Company and its subsidiaries have obligations under long-term leases for office facilities and equipment. The future minimum lease payments under these operating leases are as follows:

1997	$ 798,156
1998	$ 1,046,830
1999	$ 1,056,358
2000	$ 1,068,287
2001	$ 1,135,946
2002 and thereafter	$ 4,519,712

11. RELATED PARTY TRANSACTIONS

During 1996, the Company provided non-interest bearing loans to members of management to purchase common shares of the Company. These loans were fully repaid in the year.

12. LINE OF CREDIT

The Company has an available line of credit of $1,000,000 with its bankers that is secured by accounts receivable, a general security agreement and a specific first charge over intellectual property.

13. SEGMENTED INFORMATION

The Company operates principally in the design, development and support of advanced Operations Support Systems for the global telecommunications industry. Export sales represent approximately 85% (1995 - 81%) of revenue.

14. COMPARATIVE AMOUNTS

Certain comparative figures have been reclassified to conform with the current year's presentation.

corporate INFORMATION

HEAD OFFICE

ARCHITEL SYSTEMS CORPORATION
190 Attwell Drive, Suite 300
Toronto, Ontario
M9W 6H8

Tel: (416) 674-2727
Fax: (416) 674-2290

Web site: http://www.architel.com

BOARD OF DIRECTORS

Donald C. Webster (1) (2)
Chairman
Helix Investments (Canada) Inc.
Venture Capital Firm

Anthony P. van Marken
President and Chief Executive Officer

David E. Curry
Senior Vice President, Business Development

Richard Black (1)
Vice President
Helix Investments (Canada) Inc.
Venture Capital Firm

John C. Crosbie, P.C., Q.C. (2)
Barrister and Solicitor

John G. Roche (1) (2)
Chairman, BRP Publications
Telecommunications and Information Retrieval Newsletters

Roy D. Trivett
Private Consultant

(1) Member of Audit Committee
(2) Member of Compensation Committee

OFFICERS

Donald C. Webster
Chairman

Anthony P. van Marken
President and Chief Executive Officer

David E. Curry
Senior Vice President, Business Development

E. Stuart Griffith
Vice President, Finance and General Counsel

Richard Kathnelson
Vice President, Human Resources

Mark R. Merrick
Vice President, Professional Services

David W. Nyland
Vice President, Product Development

Daniel K. Vermeire
Vice President, Sales

shareholder

INFORMATION

CORPORATE DIRECTORY

AUDITORS

Deloitte & Touche, Chartered Accountants, Mississauga, Ontario

GENERAL COUNSEL

Fasken Campbell Godfrey, Toronto, Ontario

TRANSFER AGENT AND REGISTRAR

Investors are encouraged to contact The R-M Trust Company for information regarding their security holdings. They can be reached at:

The R-M Trust Company
393 University Avenue, 5th Floor
Toronto, Ontario, M5G 2M7

Answer line: (416) 813-4600 or toll free throughout North America at 1-800-387-0825

Internet address: www.rmtrust.ca (web site) or invcorr@rmtrust.ca (e-mail)

COMMON STOCK

Architel's common stock is traded on The Toronto Stock Exchange in Canada under the symbol "ASY".

INVESTOR RELATIONS

For additional copies of this annual report, Architel's annual information form, quarterly reports, or for further information please contact Investor Relations.

ARCHITEL SYSTEMS CORPORATION
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Fax: (416) 674-2290

email: investor_relations@architel.com
Web site: http://www.architel.com

ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

The Annual and Special Meeting of Shareholders will be held at 3:00 p.m., Wednesday, March 19, 1997 at the:

Toronto Hilton Hotel
Governor General's Suite
145 Richmond Street West
Toronto Ontario

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